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FEDERAL COMMUNICATIONS COMMISSION
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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

In the Matter of)
)
Pacific Bell Petition for Rulemaking) RM-8496
to amend Section 69.106 of the)
Commission's Rules)

GTE's COMMENTS

GTE Service Corporation and its affiliated domestic telephone operating companies ("GTE"), with reference to the Public Notice dated July 21, 1994, Report No. 2022, submit the following comments regarding the Pacific Bell's Petition for Rulemaking to amend section 69.106 of the Commission's Rules.¹

BACKGROUND

Pacific Bell's petition asks the Commission to amend its rules so that the switched access local switching rate will encompass a per-message call setup charge in addition to the current per-minute usage charge.² It contends a rule change is needed because although call setup costs are independent of the length of a call,³ section 69.106 of the Commission's rules requires all local switching charges -- including call setup charges -- to be assessed on a per-

¹ Pacific Bell's Petition for Rulemaking to Amend Section 69.106 of the Commission's Rules, filed June 30, 1994 ("Pacific Bell Petition").

² Id. at 1.

³ Id. at 2.

minute basis.⁴ Pacific Bell argues that the current per-minute rate structure for local switching creates an uneconomic scheme under which long calls subsidize short calls.⁵

Pacific Bell states that the number of short duration calls in its service territory has increased dramatically in recent years.⁶ It claims that the current local switching rate structure may impede its future ability to recover its costs.⁷ Moreover, Pacific Bell argues that the current rate structure makes it more difficult to compete for the business of customers with longer than average call duration.⁸

To remedy these problems, Pacific Bell asks the Commission to amend the local switching rate element of the Part 69 rules "so that the switched access local switching rate will encompass a per-message call setup charge in addition to the per minute usage charge."⁹ This rule, it claims, will eliminate uneconomic pricing distortions by making the cost causer pay for the costs it incurs.

⁴ 47 C.F.R. § 69.106.

⁵ Pacific Bell Petition at 1-3. Pacific Bell contends that its local switching rates were developed based on an average length of call of 3.86 minutes. Because call setup costs are static, it claims that calls of shorter than 3.86 minutes fail to recover their costs.

⁶ Id. at 3-5.

⁷ Id. at 7.

⁸ Id. at 8-10.

⁹ Id. at 1.

DISCUSSION

I. LOCAL EXCHANGE CARRIERS MUST BE PERMITTED TO USE RATE STRUCTURES THAT ENCOURAGE EFFICIENT USE OF THE NETWORK.

GTE strongly supports regulations that allow all providers to compete on the basis of their own efficiencies and to use pricing structures that reflect the underlying costs of the services provided. The Commission has recognized that the public interest is furthered by use of a regulatory structure designed to "encourage efficient use of the network, thereby promoting economic investment and innovation."¹⁰ Indeed, Commission staff has stated that an express goal of access charge reform should be to eliminate "[f]alse economic signals resulting from rates that are not reasonably related to economic costs or that are unreasonably discriminatory among access customers."¹¹ Further, the Commission has explicitly stated its intention to discourage uneconomic entry by new providers by avoiding sending new entrants false economic signals.¹²

GTE supports Pacific Bell's request insofar as it represents an effort to more closely align prices with underlying costs. GTE concurs with Pacific Bell that there is a need for the Commission to establish a more appropriate pricing

¹⁰ Transport Rate Structure and Pricing, CC Docket No. 91-213, Report and Order and Further Notice of Proposed Rulemaking, 7 FCC Rcd 7006, 7007 (1992).

¹¹ Federal Perspectives on Access Charge Reform, A Staff Analysis, Access Reform Task Force, dated April 30, 1993, at 29.

¹² See Expanded Interconnection with Local Telephone Company Facilities, CC Docket No. 91-141, Report and Order and Notice of Proposed Rulemaking, 7 FCC Rcd 7369, 7451 (1992).

structure than currently exists. But, while augmenting the existing per minute rate element with a call setup rate element might be a solution to specific circumstances Pacific Bell describes, GTE suggests that a better approach would be for the Commission to take a comprehensive action that examines more than one small portion of its pricing rules.

Towards that end, in the context of the *Price Cap Review* proceeding,¹³ both GTE and USTA have offered access reform proposals that, if adopted, would moot the need for action such as Pacific Bell requests.¹⁴ These proposals would establish well-defined market areas, criteria for evaluating the degree of competition in each area, and the pricing rules to which services would be subject, given the competitive classification of the market. Pricing flexibility would be conditioned on the availability of alternative services from providers with facilities in place to furnish them. By permitting each Local Exchange Carrier ("LEC") to employ rate structures appropriate for the market conditions that exist in the territory it serves,¹⁵ the Commission would avoid the need for

¹³ See Price Cap Performance Review for Local Exchange Carriers, CC Docket No. 94-1, FCC 94-10, Notice of Proposed Rulemaking, ("Price Cap Review") released February 1, 1994.

¹⁴ Price Cap Review, GTE's Comments at 37-64 and USTA's Comments at 44-78. See also, Reform of the Interstate Access Charge Rules, RM-8356, filed September 17, 1993.

¹⁵ Adoption of the GTE or USTA access reform proposals will not result in a vast array of disparate and unreconcilable rate structures. The natural cost characteristics of the network, the existing industry fora that address administrative issues such as billing and ordering, and the strong desires by the largest customers for reasonably consistent pricing structures will create natural limitations.

the lengthy piecemeal revision process now required by the Commission's rules.¹⁶

GTE urges the Commission to seize the opportunity offered by the complete record available within the *Price Cap Review* proceeding to establish a new and more adaptable rate structure that will obviate the need for the many separate actions Pacific Bell and other petitioners have sought.¹⁷

In summary: Immediate Commission action is necessary to adopt a new and more versatile rate structure that will encourage efficient use of the network and avoid uneconomic market entry based on false economic signals. Much of the needed reform, including action to address Pacific Bell's request, can be accomplished within the *Price Cap Review* proceeding, without the delay associated with a new and separate rulemaking activity.

II. THE COMMISSION SHOULD TAKE ACTION NOW TO ALLOW LOCAL EXCHANGE CARRIERS TO USE RATE STRUCTURES THAT REFLECT FUNDAMENTAL CHANGES IN NETWORK USAGE PATTERNS AND THEIR ASSOCIATED COSTS.

¹⁶ A process that requires LECs to engage in lengthy rulemaking proceedings is doomed to fail in a competitive environment. Customers simply will not wait for a series of such time-consuming Commission actions before choosing service suppliers. Customers will choose suppliers that offer the best combination of price, features and reliability – with price playing a large part in the decision process.

¹⁷ See, e.g., Petition for Waiver of the GTE Telephone Operating Companies, dated August 3, 1993 (FCC Public Notice DA 93-977, dated August 12, 1993); The NYNEX Telephone Companies Petition for Waiver of Part 69 of the Commission's Rules to Offer the Vermont Market Plan, dated August 13, 1993 (FCC Public Notice DA 93-105, dated August 13, 1993); The NYNEX Telephone Companies Petition for Waiver of Part 61 and 69 of the Commission's Rules to Implement a Universal Service Preservation Plan, dated December 15, 1993 (FCC Public Notice DA 93-1537, dated December 22, 1993); Pacific Bell Petition for Waiver of Part 69 of the Commission's Rules to Offer Optional Pricing Plans, dated December 23, 1993 (FCC Public Notice DA 93-1580, dated December 30, 1993).

Like Pacific Bell, GTE has experienced a rapid increase in the number of short duration calls.¹⁸ GTE believes that short duration calls will continue to grow. The proliferation of credit card and debit card transactions is one reason for this phenomenon. Each credit card transaction generates a short duration processing call to verify that the card should be accepted and that the credit limit has not been exceeded. Credit card companies, facing intense competition from other card providers, now offer incentives for use of the card.¹⁹ These incentives generate credit card transactions which generate processing calls.²⁰ Similarly, new debit card products have begun to gain popularity with consumers. Like credit cards, debit card transactions rely heavily on telecommunications.²¹

Pacific Bell's petition for rulemaking notes that the cost of setting up a call far exceeds the cost of providing a minute of use.²² This disparity between call setup costs and call maintenance costs is likely to become even more pronounced with the deployment of the Advanced Intelligent Network ("AIN"). AIN will lead to the implementation of new services that will require the local

¹⁸ See, Pacific Bell Petition at 3-5.

¹⁹ Incentives include airline frequent flyer miles, credits toward automobile purchases, credits applied to long distance calls and even cash rebates. See advertisement for American Express "Membership Miles" program, Wall Street Journal, August 2, 1994, at B5.

²⁰ Credit card acceptance at new retail outlets such as grocery stores and fast food restaurants has also contributed to the growth of credit card transactions and the associated processing calls.

²¹ Each transaction using a debit card requires a short duration telephone call to the card issuer to subtract the amount of purchase from the pre-paid card balance.

²² Pacific Bell Petition at 6-7.

switch to make frequent inquiries to databases or other devices to obtain call processing or routing information.²³ Local number portability, often mentioned as a desirable feature of tomorrow's telecommunications, is one such service. In order to provide true number portability, the local switch will be required to access a database to determine how and to whom calls are to be routed. The routing of some calls may require call setup activity by multiple access providers. All of these additional database inquiries and local switching activities will increase the proportion of total costs represented by call setup activity, and will increase the need for a rate structure that allows carriers to recover such costs from cost causers.

GTE believes that rates should be structured to encourage new and innovative use of the network and increased network usage. However, it is also critical that pricing structures used by LECs send correct economic signals to the market by reasonably reflecting the usage patterns and associated cost characteristics of today's network.²⁴ As Pacific Bell notes in its petition, the Commission clearly contemplated further unbundling of access elements when it created the original access charge structure.²⁵ The time to act to revise the

²³ See, generally, Intelligent Networks, CC Docket No. 91-346.

²⁴ Creation of a call setup rate element would be consistent with prior Commission action in the 800 data base proceeding. There, the Commission adopted a flat-rated charge for the 800 data base query, stating: "We adopt a per query charge for 800 data base because the data base query is a distinct part of the setup of an 800 call. Therefore, a per query charge best reflects the costs of providing 800 data base service." (footnote omitted) Provision of Access for 800 Service, CC Docket No. 86-10, Second Report and Order, 8 FCC Rcd 907, 909 (1993).

²⁵ See Petition at 7.

regulatory framework is now. Should the Commission not embrace the broader reform proposals of USTA and GTE described, *supra*, it should immediately begin a rulemaking process to examine the issues raised by the Pacific Bell Petition.

In summary: The Commission should allow the costs associated with today's network usage patterns to be reasonably reflected in the pricing structures of Local Exchange Carriers.

Respectfully submitted,

GTE Service Corporation and its affiliated
domestic telephone operating companies

A handwritten signature in cursive script, reading "Andre J. Lachance".

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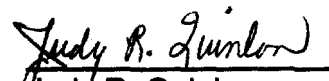
August 22, 1994

Their Attorney

Certificate of Service

I, Judy R. Quinlan, hereby certify that copies of the foregoing "GTE's Comments" have been mailed by first class United States mail, postage prepaid, on the 22nd day of August, 1994 to the following party:

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